promar matters

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WELCOME:

James Dunn
Promar Managing Director

Welcome to this edition of Promar Matters, our monthly publication for customers and industry influencers.

Uncertainty continues to dominate discussions with dairy farmers. The industry is still struggling to cope with lower milk prices. Most commentators and analysts now expect lower prices to remain until the turn of the year, with no predictions for the rate or extent of the recovery.

On top of this there is economic uncertainty regarding the impact of the EU Referendum next month on dairy farm prospects. And then there is the practical uncertainty created by the weather. Hopefully we will see an improvement ahead of first cut so some quality forage is produced as a foundation for next winter's diets.

Against this background, farmers still have to plan their businesses. Increasingly we are working more closely with clients on longer term strategic issues as they look to develop more resilient systems. Every farm business is different and these discussions can have significant personal, as well as business implications. However, it is important that time is taken to take a long hard look at their business to identify the best direction for all involved.

The Promar Leading in Dairy scheme is a new approach designed to help dairy farmers plot the most suitable route forward based on a detailed assessment of the business and its objectives. We would welcome the opportunity to help you formulate the way forward for your business so please contact us to find exactly how we can help and to discuss a free initial visit.

WHICH WAY FOR **YOUR BUSINESS?**

Emma Thompson
Promar Regional Manager

Promar Regional Manager Emma Thompson considers the strategic options for dairy farmers.

Do you know where your business will be in 2 years? In 5 years? In 10 years? Do you know what you want to achieve and how you will get there? And what are your personal goals and objectives, as after all, in the vast majority of cases, personal and business objectives are closely inter-twined?

The current economic conditions facing the industry mean all dairy farms need to critically appraise where they want to be and how they will get there. Although no two dairy farms are the same with varied family involvement, different land tenure, a range of production systems and different opportunities, the strategic options basically boil down to four.

It may be that all the options apply to your business, or maybe just one or two. The skill will be deciding the more robust direction for the specific business.

Option 1 Increase efficiency

In most cases this is the foundation option which must be considered irrespective of whatever else is done. Assuming the decision is to stay in milk production, management has to be focussed on being as efficient as possible.

No-one sets out to be inefficient or to have a higher cost base than is essential, yet year on year the results of our Farm Business Accounts and Milkminder service show a significant range in costs of production and performance.

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For example, the best dairy farmers assessed by yield from forage produced over 40% of production from forage, compared to the average at under 30%. The saving in purchased feed use is significant, leading to lower feed costs. So why are some farms so much better and what can be learned from them?

The average age at calving of heifers is still 27 months. Reducing this will lead to lower replacement costs, release land for other enterprises and save labour.

Similar questions can be asked about all activities and cost areas. Can things be done differently? Do they need to be done at all? Is the maximum ROI being achieved from all investment in inputs?

Reviewing all aspects of the business and identifying efficiency gains should be a fundamental activity on all businesses.

Option 2 Change scale of operation

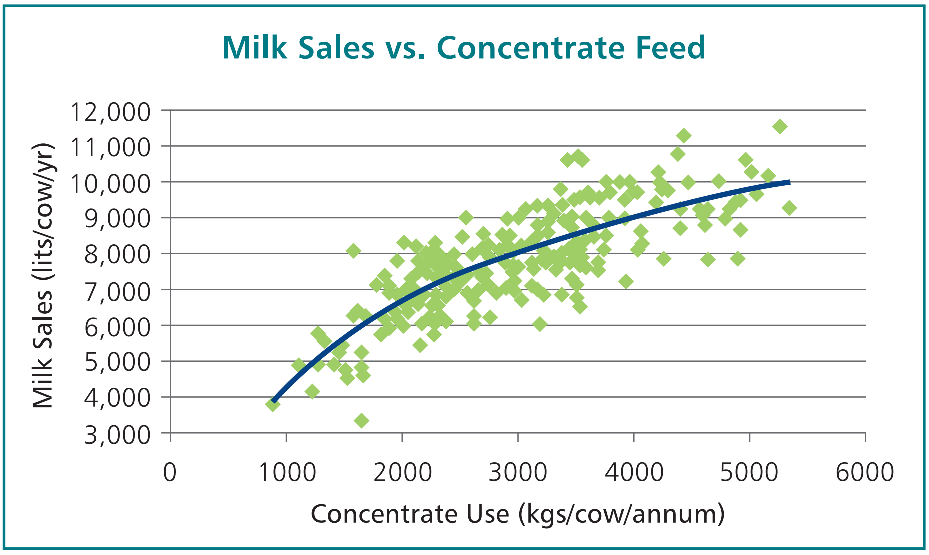
For many years the mantra has been to get bigger – more cows, higher yields, spread costs over more production to reduce cost per litre.

This has undoubtedly been a successful strategy for a great many businesses, but not all. If extra cows lead to reduced performance, the benefits may be eroded.

It is sensible that every business looks at the demands on the business and how best these are achieved and the scale of operation required.

Interestingly we are seeing more businesses looking seriously at reducing scale and complexity, challenging their business in a new way.

FBA data repeatedly show the marginal response to additional feed is low (see graph). In other words, it takes more feed to produce those extra litres, reducing their financial contribution to the business. So are they worth producing?



Might it pay to reduce yield per cow and make sure the litres produced make a good margin? If the extra litres come from 3X milking, is this cost effective?

Similarly are all the cows contributing to the full? What would be the impact of reducing herd size by, say 10% and releasing more forage to the remaining cows. If the cows culled are poor breeders, more prone to lameness or having high cell counts then other costs could reduce too.

Taking a long hard look at the scale of the business should be high on the priority list. In addition to possibly lowering production costs, a smaller, simpler business might bring personal benefits too.

Option 3
Adding value or diversification

If milk price is low, can the price received be increased by adding value? Alternatively can new income streams be added to help generate the profit required by the business?

Diversification into milk processing or into an alternative enterprise can be a viable option for some businesses but needs careful planning. You need to understand the market for the product. You must know who the competitors are. New skills in marketing, processing etc. will need to be developed. And you need to have the correct location.

As our case study on the Lacey family in our February issue showed, a well-considered plan in a location with a credible market for the product will greatly influence the success of any diversification project.

Option 4 Manage your exit

If all else fails and a business plan based on efficiency, scale and, where appropriate, diversification fails to allow business and personal objectives to be achieved then the option to investigate is how to manage an exit from the industry.

The key here is planning. Exiting can't be rushed as so many factors will influence the success of the exercise. When is the best time to do it to maximise the value of the herd? What are the tax implications and how does this affect timing? What will happen to the land? If you will stay in farming, what enterprise mix will you run? If you are leaving the industry altogether, where will you live and how will you get the best return on the asset value realised?

The key is that you do not have to make these decisions alone. All our consultants are working with dairy farmers on a daily basis, helping them identify the most suitable option, and then delivering the best return from that option, liaising with other advisors as required.

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